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Organic Products

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Approved by:

Rich Petges

U.S. Embassy

Prepared by:

Dietmar Achilles

Report Highlights:

The European organic markets are boom as result of the BSE crisis. Consumers hoped to reduce health risks by purchasing organic foods. Retail markets react by expanding the organic product line. Total German organic market is estimated at DM4.0 billion (\$1.9 billion). Average growth rate of this market is foreseen at ten to fifteen percent annually, providing good marketing opportunities for U.S. exporters.

Includes PSD changes: No
Includes Trade Matrix: No
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General Summary

The European BSE crisis gave a big push to the demand for organic foods. The general public believes that organic products provide a generally higher level of food safety. Politicians across all political spectrums pretty much support this belief. It is mainstream thinking that organic is good for consumer health and per-se good for the environment. The current German government supports a program to convert 20 percent of the German production area to organic production, a challenging goal. For the consumer, a new national organic seal has recently been launched, which can be applied to both domestic and imported organic foods.

The size of the organic market is estimated at DM4.0 billion in 2001, which is about 1.6 percent of the total food market. A longer term average annual increase of ten to fifteen percent is forecast. Growth will appear mainly in fresh products such as fruits and vegetables, dairy products and meats. Since the interest in organic products is growing Europe-wide, demand for raw materials and processed goods outpace supplies. Traditional food retail chains are also investing in this market segment, which may result in the regular consumer making spontaneous organic purchases.

European imports of organic food from the United States and most other non-EU supplier countries are subject to enormous administrative paperwork which often causes confusion on the exporters' side in the United States. An equivalency agreement between the EU and the United States about organic rules and system oversight may provide the potential to significantly lower the required paperwork, provide more certainty/clarity and increase U.S. organic food exports to the EU.

German Government Support for Organic Farming

The appearance of BSE in Germany in November 2000 produced great uncertainty among German consumers about food safety. Many people refrained from purchasing beef and beef containing products. An estimated four percent of the consumers became vegetarians, some of them only for a few months. The big winner in the months after November 2000 was the organic market. In early January 2001, the leadership of the German Federal Ministry of Agriculture was switched over to a member of the Green Party. The Ministry of Agriculture was renamed as the Federal Ministry of Consumer Affairs, Food and Agriculture. The name of the ministry implies that consumer interests come first followed by the product of interest then the producer. The political target of the new minister is consumer and product safety. The new minister's outspoken goal is that within ten years, 20 percent of the German land will be converted to organic production and management methods. By the end of 2000, 3.2 percent of German agricultural area was operated organically. This implies that about two percent of German crop output was organic products. To achieve the ambitious 20 percent goal, the German government launched a special two year PR and education program for organic foods and production, budgeted at Euro 35 million annually for the fiscal years 2002 and 2003.

German ag-statistics report that the organic area grew by 22 percent in CY 2000 versus CY 1999. Unfortunately, data for these two years are not comparable since in 2000 EU organic rules also began to cover livestock production. Before 2000, EU organic rules only covered crop production.

The 20 percent organic production goal is generally viewed as very ambitious. More realistic is an organic production share of up to ten percent within ten years. Farmers interest to convert their farms to organic production principles had been very big during the first half of 2000 in wake of the BSE crisis. Organic certification organizations received lots of calls for information and consultation.

A major reason why farmers are interested in switching over to organic farming is the additional financial support they will receive from EU and national budgets. Organic farmers participate in all EU support programs which are provided to EU farms in general. These are per hectare compensation payments for program crops such as grains, oilseeds and protein crops and per head premiums in cattle production. In addition to these regular programs, organic farmers are entitled to area premiums for organic production which are differentiated by crop groups and transition payments and permanent transfer payments.

EU Support Payments in Organic Agriculture in 2002 - Euro per Hectare and Year		
	Conversion Premium	Permanent Premium
Field Crops	210 (150)	160 (100)
Grasland	210 (150)	160 (100)
Vegetables	480 (360)	300 (180)
Permanent Cultures	950 (715)	770 (510)

in parenthesis support payments in 2001

Source: German Federal Ministry of Consumer Protection, Food and Agriculture

To receive the increased payment farmers are required to set aside three percent of the crop land for environmental protection purposes without any additional compensation. The conversion payment is paid for a period of five years, although the required conversion period from conventional to organic is only two years. In the future, this EU program could be supplemented by special support payment programs at the German state level. Together with the EU payments states may offer up to about DM 800 per hectare for organic field crops. However, these specific regional support programs still need to be approved by the EU.

These inflated support payments are causing many farmers to convert to organic production. Many of these farmers are not necessarily convinced organic supporters, but the government payments are too good to pass-up. The traditional opinion that organic farms are primarily small labor intensive operations is no longer true. Quite a number of large scale farms in regions of lower soil fertility are also converting their livestock operations to organic farms. These farms may reach farm sizes of several thousand acres. They are often located in low-soil-fertility regions where only extensified grass range cattle production is justified. The major obstacles for farmers to convert to organic are currently the lack of organic production experts advising the newcomers and, in particular, the much higher workforce requirements on organic farms. Many farmers will simply not be in the position to convert to organic farming since their calculation of the workforce is based on labor needs for a modern conventional farm. If these farmers realize after two years or so that they are not able to comply with the strict organic rules and wish to return to conventional farming they will be required to reimburse to

the EU the organic conversion payments they had received. Farmers have to stick to organic rules for at least five years to avoid any reimbursements.

Who are the organic customers in Germany?

This section is based on an opinion poll carried out before the November 2000 BSE crisis occurred in Germany. The average organic customer is between 35 and 50 years of age. The majority of these people are affluent, well educated professionals from technological, liberal backgrounds. The leading motive for organic purchase decisions are health reasons followed by better taste and conceived negative aspects of conventional agriculture. Actually, German Consumer Protection Ministry representatives concede that there is no scientifically confirmed health or food safety advantage attributed to organic food. Of growing importance are animal welfare considerations and the increasing number of food scares in the past few years. Environmental motives are also a factor, but of lesser importance. However, we should not forget the zeitgeist who also spurs the organic market, i.e. if you want to do something good for your family or your guests, buy organic foods. However, such fashions bear the risk of being short lived.

Organic baby food is a special market segment with very stable demand. Young families are basically major risk avoiders, and producers of baby food responded to this demand. The leading companies purchase major portions of their ingredients as organic raw materials. However, the problem for the organic market is that customers, as they grow older and leave the family safe haven, soon stop buying organic products. This is often also true for the parents after their children have moved out.

The major reason for not buying organic foods prior to November 2000 was the high price. About 57 percent of the questioned people stated that organic foods are too expensive. This response has to be put into context with the intensive price competition in the conventional food markets during the past years. Consumers are used to extremely low food prices and therefore many do not have a sufficient understanding of the reason for high organic prices. The mark-up for most organic food ranges between 60 and 100 percent.

In the 2000 survey, 25 percent of those surveyed responded that they do not have confidence in organic products because they fear that there is no guarantee that the product is really organic (four years earlier in 1996, 36 percent claimed that they did not trust organic products). A surprising 21 percent said that they do not see any difference between organic and conventional products. Other arguments often heard are that organic products do not taste better and that they are not of noticeably better quality, or do not keep long enough. In particular, fresh organic products often do not look attractive enough. More than ten percent of the responses were that certain organic products are simply not available or the distance to the organic shop is too far. Actually, the last argument may be the most important one for the relatively low level of organic products in the German food market. Many consumers do not have a clear understanding of what kind of organic products are available and therefore they do not ask for them.

Organic since BSE

The BSE crisis in November 2000 changed significantly the food consumption pattern in Germany. Many consumers reacted hysterically claiming they do no longer know what food products are safe and can be consumed without risk. Estimates are that about four percent of the consumers excluded all meat products from their menus at least temporarily. Many switched over to buy organic foods since these were supposedly the only foods free of the BSE risk. This move was also supported by the still relatively fresh memory about the dioxin scandal that occurred more than a year before in Belgium.

As consumers feared for their health, they were willing to pay higher prices. Demand increased not only for organic meat products, but also all for other organic foods. Estimates for organic food demand growth rates during the first two quarters of 2001 range at about 30 to 50 percent. Actually, organic milk sales more than doubled during the peak of the BSE crisis. Since May 2001, when BSE issues no longer dominated media coverage, organic demand slowed down again. However, consumption of organic foods will continue on a significantly higher level than before the BSE crisis.

The German National Organic Seal

The new Minister for Consumer Affairs, Foods and Agriculture, Renate Kuenast, initiated the development of a new organic seal which may be used for all organic products. The new seal requires that the products comply with the production and processing rules of the EU Council Regulation 2092/91, the basic EU organic market regime. Imported organic products can also bear this seal if they meet the requirements. The seal says: Bio - nach EG Oeko-Verordnung (Bio- according to EC Organic Regulations). The Federal Ministry intends to spend DM 8.3 million (\$4.0 million) to promote the seal. It is foreseen that it may become available to the organic industry and trade by the beginning of the year 2002. Actually, the German organic sector had developed a special German organic seal in 1999. But the users of this earlier seal had to comply with higher than EU standards which were set by German organic producer groups. This earlier seal was not successful since the retail business did not accept it. The seal could not be used for imported products or products containing ingredients which did not meet the higher association standards. About 20 percent of the German organic farms operate only on the basis of the EU regulation. The other 80 percent have to comply with somewhat higher standards laid down by the different organic producer groups.

The new seal is going to come at the right time to support the organic market. Many new consumers have learned what kind of organic products are available and where the markets are located. The general retail trade also started campaigns to promote organic foods since the consumers are asking for them and, in particular, since they provide higher profit margins than conventional foods. The food retail trade welcomes the development of the new seal since it provides an identification tool for organic foods. A recent count of the number of different trade seals used for organic foods in Germany came to a total of more than 100 seals and logos. Naturally, such a big number of different identification marks only produces confusion among the consumers. The new seal may be used in addition to the existing private logos. The interest for the new logo seems to be especially strong for products traded through conventional food markets.

Detailed information about user conditions for the new seal may be obtained at

Informationsstelle Bio-Siegel
Rochusstr. 2
53123 Bonn, Germany
Tel.: (+49-228) 9777 700
Fax: (+49-228) 9777 799
E-Mail: info@oepz.de
Internet: www.bio-siegel.de

Outlook for the Organic Market in Germany

The total German food market volume is estimated at DM250 billion, equivalent to about US\$120 billion. This does not include alcoholic beverages and tobacco products. The current organic share is estimated at DM 4 billion or 1.6 percent of the food market. A number of optimistic forecasters expect that this share may grow to about ten percent which is DM25 billion. If we assume an exceptionally optimistic growth rate of 30 percent per year it would take seven years of continuous strong growth to achieve a market share of ten percent. A more realistic approach for the German organic market is a growth rate of ten to fifteen percent annually. With ten percent per annum growth, organic foods would not account for 10 percent of total food consumption until 2020. This quick analysis indicates that the ten percent goal is very ambitious.

An annual growth rate of more than ten percent can only be achieved if the group of occasional organic buyers increases, or this special group intensifies its organic purchases. The group of regular and convinced organic buyers seems to have leveled off at about six percent, and is not foreseen to grow significantly. Stronger growth potential can be expected from occasional organic customers. This group purchases mainly in the traditional food stores. The new organic seal will help them to easily identify organic produce. Currently, there are about one hundred different logos/brand signs/seals for organic produce in use - a situation which considerably confuses the normal food buyer.

Aside from the new organic seal, another important and influential opinion leader is the HRI sector. In particular, many canteens, hospital kitchens and school kitchens already offer an organic choice. Consumers in these institutions experience the great variety of organic food products which are available.

Structural Changes in the German Organic Market

Growth in the organic market is foreseen to influence the market structure. At the moment, there are

still many small wholesalers and retailers active in this market. With the growth of the organic market, the bigger companies are expected to be able to rationalize their purchasing and importing departments and reduce cost. Cost reduction, actually, will be necessary for organic products traded through the regular retail chains, since the consumer has the direct comparison to the prices of traditional goods. Some experts foresee a price differentiation for organics sold in the normal stores and those organic products in specialized stores or at the farm gate. It is likely that the average price level for organic products sold through the specialty stores will remain higher than those in the normal food stores. Aside from normal food stores, large food discount stores are also testing the organic section. Their major problem, however, will be to source sufficient volume at uniform quality.

In the sector of specialty organic stores, it is noticeable that these stores are growing in size. With the bigger sales area, the new stores are in the position to offer a wider range of products and satisfy consumer needs for a one-stop-buy-all food purchasing procedure. The wider product range will attract more customers to the larger scale organic stores.

Pressure on producer prices is, at the moment, not expected since demand for organic raw materials is much stronger than available supplies. Also production growth through conversion of conventional farms to the organic production principles is not likely to meet the strong short term demand. The longer term approach is not so clear as producers in central and eastern European countries are converting to organic production to supply western European markets. On the retail side of the organic market, potential for price reductions and consequently a higher attractiveness for the consumer results from the enormous rationalization potential in the logistics system of organic foods. So far, too many participants and too small delivery volume to the individual store produce high logistic costs. Conventional retail chains are in the position to handle organic food just as cost efficient as any other product - assumed that there is enough lasting demand.

Marketing Opportunities

The current strong growth of demand for organic foods in many European countries provides excellent opportunities for American suppliers. This is not only limited to unique American grown products, but applies to basically all organic foods. However, livestock products are difficult to trade to the European Union. For the development of long term trade relationships with German importers it will be helpful to also focus on unique American foods which cannot be replaced by EU internally produced products. An illustrative example would be maple sirup or California wine. For details on EU import regulation check the home page of the FAS Office at the American Embassy to the European Union in Brussels

www.USEU.be/agri/USDA.html

This USDA Brussels homepage provides generally all the information about import regulations relevant to US exporters wishing to ship food to Europe. However, there appears to be some variance among various EU and/or German state level authorities on the interpretation of compliance with the EU regulations. Therefore, one EU member authority may judge a U.S. producer and/or imported U.S.

product as being in compliance, while another may not. An equivalency agreement between the United States and the EU on organic principles and supervision systems could provide more clarity/certainty to the system, and therefore make the trade flow smoother.